

The Trend in Finance

Easier Money Conditions Will Enable Member Banks to Cut Debt to Reserve Institutions

A CHANGE in manner of functioning of the Federal Reserve system seems near. The passing of the period of stringent credit will make it possible for the central banks to serve the purposes for which they were designed. It was originally intended that member banks should borrow from the Reserve banks only when seasonal requirements and special conditions demanded expansion. Instead, the exigencies of Treasury financing and other facts related to the era of war and inflation kept member banks as permanent debtors of the Reserve system. This relationship rendered the profits of the regional banks extraordinarily large.

It is patent now that as credit is released, as industry adjusts itself to a lower price level, member banks will seek to reduce their indebtedness, and, according to Governor W. P. G. Harding, the Reserve authorities will encourage this process by keeping the discount rate of the Reserve banks slightly higher than prevailing open market rates.

If no new inflation halts developments which seem under way, the trend will be in the direction of a substantial shrinkage of the rediscounts, and hence the profits of the Federal Reserve banks. Unless new offsets appear, the regional banks will be faced with the problem of keeping their profits sufficiently large to meet their expenses, and will do this in a large measure by purchasing acceptances in the open market.

If real deflation comes—in the sense of a substantial reduction of the aggregate credit in existence in this country—then

lower earnings for the Reserve banks will inevitably result. This contingency is not viewed with alarm by Reserve officials, as it never was intended that the Reserve banks should earn large sums of money. They were created for other purposes, and during the period of inflation huge profits were inescapable.

The fact that credit released from industry will be to some extent abolished by liquidating member bank indebtedness at the Reserve bank will delay the attainment of a period of easy money, but credit conditions are likely to change rapidly after business begins to release funds on a large scale. Last week borrowings at the Federal Reserve Bank of New York were substantially reduced, as rates on money for commercial and speculative needs declined.

In spite of the dropping of the renewal rate on call loans to 6 per cent for the first time since November 30 and the decline of rates in the outside market to 4 per cent, industrial stocks revealed slight losses last week. The extremely rapid recovery from the low prices caused by the hysteria and nervous selling of December was followed by a series of irregular markets. Since the fountain and springs of strength of the market during the rebound were to a large extent repurchased by those who sold stocks and bonds last month to establish losses for taxation purposes and also short covering, it was to be expected that, when this character of buying tended to exhaust itself, dullness in speculation would follow.

The rally from the low marks of December was not confined to security prices. Commodity quotations at the organized exchanges turned higher, and a moderate improvement took place in the various wholesale markets, particularly in cottons, silks, women's woolen goods and shoes. A flood of buyers has poured into the city, and many of the purchases that should have been made in the closing months of last year are now being made. The spurt therefore represents in part the effects of deferred buying and also seasonal conditions. Factors, emerging from a period of excessive slackness, reported bristling activity last week. The expression of real buying impulses led to price increases, indicating that the low quotations prevailing were under the level at which sellers would be willing to dispose of any large quantities of goods. In the terms of the depression of previous months, the present situation seems like an impressive boom. However, it can be more accurately described as a moderate recovery.

Money is easier. Current developments in the money market indicate a piling up of surplus funds in banks in almost all parts of the country. At the Stock Exchange last week the renewal

Transactions Last Week in Listed Stocks

Summary of Stock Exchange Dealings

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Stocks

Last week before Year January 1 to date

Railroad stocks 1,297,800 1,462,700 1,769,100 2,644,500 3,701,500 2,622,800

Other stocks 5,410,400 4,404,800 4,085,800 5,214,100 5,561,200 4,331,100

All stocks 4,708,100 4,867,500 5,854,900 10,058,600 12,262,700 6,953,900

Bonds

Last week before Year January 1 to date

U. S. government bonds. \$42,872,000 \$56,215,000 \$57,368,000 \$105,316,000 \$123,049,000

Railroad bonds 12,052,000 12,002,000 11,705,000 23,491,000 30,714,000

Other bonds 18,794,000 16,689,000 17,852,000 28,061,000 35,822,000

All bonds 73,718,000 84,904,000 86,923,000 155,868,000 189,585,000

25 Bonds 10,000 10,000 10,000 10,000 10,000

Record of Stock and Bond Averages

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Stocks

Last week Year ago to date year 1920

High. Low. High. Low. High. Low. High. Low. High. Low.

20 Railroads 86.00 85.95 64.80 44.85 66.40 65.40 73.80 66.80

30 Industrials 76.87 74.37 101.23 76.87 106.13 102.23 72.80 110.30 67.67

50 Stocks 72.12 71.02 68.80 66.50 72.12 69.90 62.05 64.30

Bonds

Last week Year ago to date year 1920

10 Railroads 75.91 75.08 75.70 75.02 75.91 73.88 76.97 66.73

10 Industrials 83.21 82.70 91.38 82.21 82.06 91.45 81.30

5 Utilities 71.98 71.28 72.15 70.13 74.53 67.66

25 Bonds 78.03 77.37 81.51 81.25 78.03 76.31 81.71 73.94

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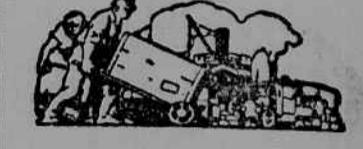
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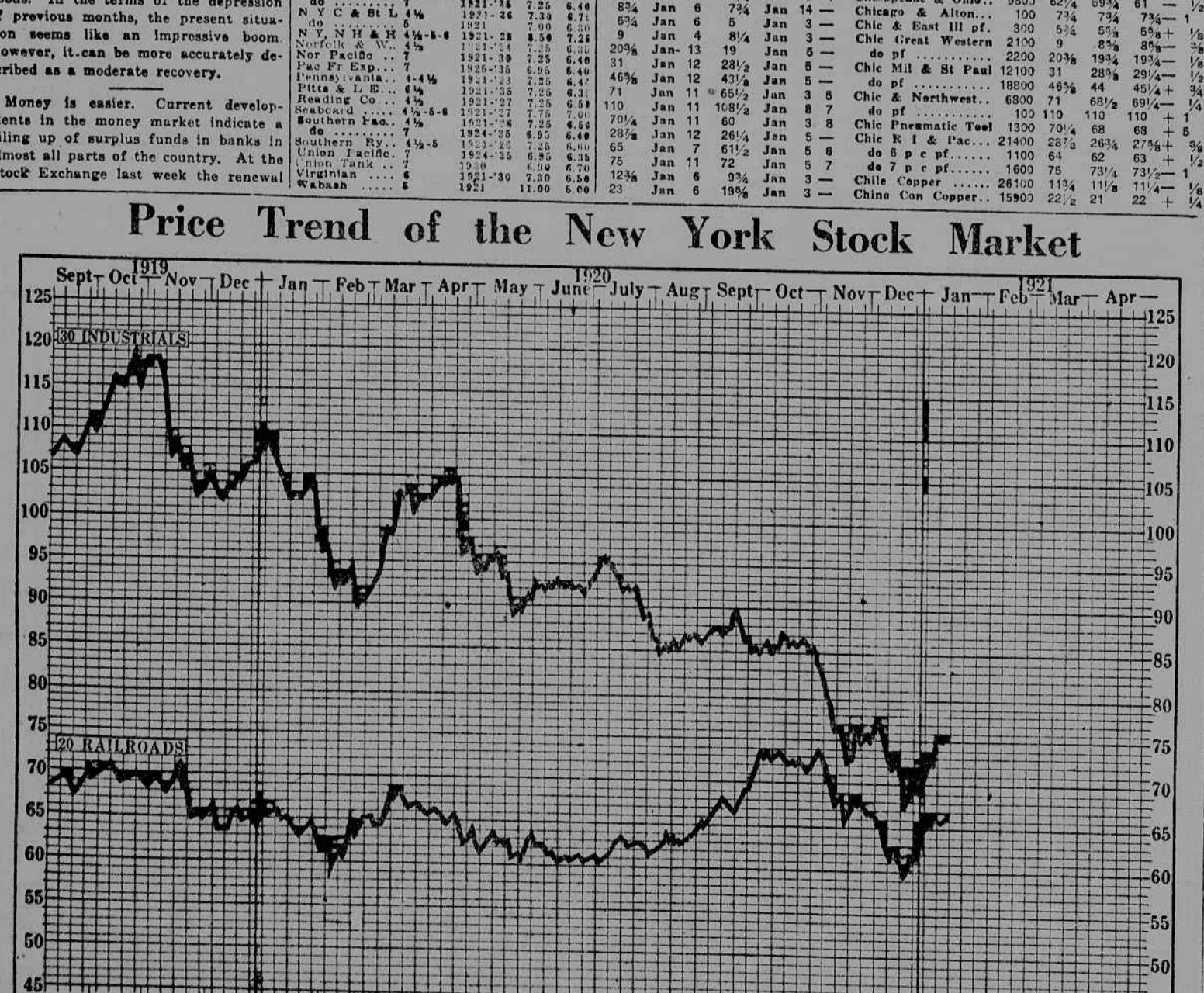
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Price Trend of the New York Stock Market



The graph shows the weekly fluctuations in the average price of twenty railroad stocks in one line and thirty industrial stocks in the other since September 1, 1919.



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